



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR

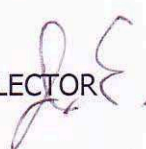
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TO: JEFF HAMM, HEALTH AGENCY DIRECTOR

FROM: JAMES P. ERB, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR 

DATE: MAY 15, 2014

SUBJECT: FOLLOW-UP REVIEW OF THE PUBLIC GUARDIAN

Our office previously performed a compliance review of the Public Guardian for calendar year 2012 and issued a report to you on September 26, 2013. We recently performed a follow-up review to determine whether the Public Guardian implemented the recommendations identified in our report. We determined that the Public Guardian has implemented our recommendations. Additionally, in the course of our follow-up review we identified a segregation of duties issue in cash disbursements. We have included the Health Agency's response to our finding in the report below.

Purpose

The purpose of our review was to determine whether the Public Guardian implemented the recommendations provided in our September 26, 2013 report.

Scope & Methodology

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The International Standards for the Professional Practice of Internal Auditing require that the internal audit activity be independent and internal auditors be objective in performing their work. The Standards also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of the engagements are communicated.

Our review included an examination of judgmentally selected active cases. We tested the active cases to determine if funds disbursed on behalf of clients were posted timely and accurately, were appropriately authorized, and were handled in accordance with the Probate Code and Public Guardian and Countywide policies. We also reviewed a sample of Inventory and Appraisal forms to determine whether Public Guardian staff met court reporting deadlines.

Additionally we looked at Public Guardian deposits and deposit procedures for compliance with the Auditor-Controller's Cash Handling Policy. Our review also included an evaluation of internal

controls over cash. Our evaluation of internal controls included inquiries of departmental staff and direct observations.

Results

We found that the Public Guardian implemented the recommendations provided in the prior report. We also found a current issue with the segregation of duties for cash disbursements. The follow-up results and our findings are discussed below:

Previous Findings & Recommendations and Follow-Up Results

1. Cash Duties are Not Segregated

The Public Guardian uses outside bank accounts for the deposit and disbursement of client funds. Transactions are not processed through the County's financial system nor are funds part of the County Treasury. We found that the deposits and disbursements are processed by the same staff person. Best accounting practices require that duties involving the custody of cash and the authorization or approval of related transactions affecting the cash be segregated. The duties have not been segregated due to a limited number of fiscal staff in the Public Guardian's office. The Public Guardian's Office has implemented compensating controls by requiring verification of deposits by a second staff person; however, the overall lack of segregation of duties increases the risk of misappropriation and/or misuse of assets.

Recommendation:

We recommend that the staff person responsible for issuing checks be removed from all depository duties. In addition, the preparation of the deposit should be handled by a person who is not making the deposit at the bank. The person making the deposit should not work in the Public Guardian's office.

Follow-Up Results

Implemented: We found the Public Guardian staff responsible for issuing checks has been removed from depository duties. The deposit is now delivered to the financial institution by Health Agency Administrative staff members who are separate from the Public Guardian's office.

2. Untimely Deposits

Based on our review of internal controls, we determined that deposits were not made in a timely manner. The County Auditor-Controller's Cash Handling Policy requires departments to deposit cash at least weekly or earlier if receipts exceed \$500. Staff was unaware of the Cash Handling Policy requirement. In addition staff stated that the bank used by the Public Guardian's Office charges a fee for each deposit. Undeposited cash receipts increase the risk of loss or misappropriation of conservatee assets.

Recommendation:

Because the bank used by the Public Guardian charges a fee for each deposit, we recommend that the Public Guardian work with the San Luis Obispo County Treasurer to find a more cost effective financial institution. In the interim, we recommend that the Public Guardian submit a letter to the Auditor-Controller asking for a waiver allowing the Public Guardian to deposit funds weekly.

Follow-Up Results

Implemented: Subsequent to our prior audit, the bank used by Public Guardian was acquired by Union Bank. Staff are now working with a government account representative who has assured them that the fees being charged are the best government rates possible. Additionally Public Guardian has requested and received approval from the Auditor-Controller-Treasurer-Tax Collector to deposit funds weekly. We found that Public Guardian deposits are now being made on a timely basis.

3. Authorized Bank Account Signatory Not on Organizational Chart

We found that one of the signatories on the Public Guardian bank accounts is an administrator in the Public Health Department. The Public Health Administrator is not on the Public Guardian organization chart or in a position of authority over the Public Guardian's activities. Best business practices require that signatories on bank accounts have some authority over the operations of the accounts for which they are signing. The Public Health administrator was a signer on the account when the Public Guardian's Office was part of the Public Health Department. When the Health Agency reorganization took place, and the director of the Health Agency became the Public Guardian, the Public Health administrator was left on the bank account as an authorized signer. Having a signatory on the account who does not have authority over the operations of the accounts for which he or she is signing increases the risk that client funds could be disbursed for unauthorized purposes.

Recommendation:

We recommend removing the Public Health Administrator from the Public Guardian bank accounts. If the Public Guardian requires another authorized signatory on the account, we suggest the Health Agency Deputy Director, who by the nature of his position has accountability for the financial activity of the entire Health Agency, be added.

Follow-Up Results

Implemented: We confirmed that the Public Health Administrator had been removed from the Public Guardian bank accounts.

4. Inventory and Appraisal Not Filed Within 90 Days

We found that three of seven cases tested did not have inventories and appraisements of the conservatees' estates filed with the clerk of the court within 90 days of appointment of conservatorship. Probate Code Section 2610(a) requires that within 90 days of appointment, the conservator must file an inventory and appraisal of the estate with the clerk of the court. Staff was uncertain as to the reason for the delays which ranged from 2 to 19 days. Noncompliance with the Probate Code increases the risk of loss or misappropriation of conservatee assets as well as potentially increasing the risk of litigation for the County.

Recommendation:

We recommend Public Guardian staff review current processes and update as necessary to ensure that mandated court reporting deadlines are met in every case.

Follow-Up Results

Implemented:

We found that the Public Guardian had met the mandated court reporting deadlines on the two new cases that were reviewed.

5. Policies Out of Date

We found that many of the Public Guardian Policies had not been updated since January of 2002. Best business practices require the review and update of policies on a regular basis. Staff stated that the policies are based on legislation, which changes too quickly for updates to the manual to be effective. Policies that do not have the most current information can cause errors and miscalculations in staff performance.

Recommendation:

We recommend that Public Guardian staff review the Public Guardian's policies and update them as necessary.

Follow-Up Results

Implemented: We found that the Public Guardian had updated several office policies and created one new policy. The office is now utilizing online resources when applicable. These include California Association of Public Administrators, Public Guardian and Public Conservators Best Practice Guidelines and the Probate Code.

New Finding & Recommendation

1. Cash Disbursement Duties Not Segregated

We found that the Public Guardian Accountant is a signatory on the Representative Payee program bank account. The Accountant also has the authority to add new vendors in the financial system and issue checks to those vendors. The Auditor-Controller's Cash Handling Policy requires that no single individual control more than one key aspect of a cash transaction. The cash disbursement duties have not been segregated due to a limited number of fiscal staff in the Public Guardian's office. The Public Guardian has implemented compensating controls by requiring the Health Agency Director and Deputy Director as signatories on the representative payee bank account; however, often both the Director and Deputy Director are not available, and the Accountant signs the checks. When one individual has control of more than one key aspect of a transaction, the risk of error and the opportunity for misappropriation significantly increases.

Recommendation:

We recommend that the staff person responsible for issuing checks be removed from being an authorized signor on the representative payee bank account or that the responsibilities for entering new vendors be assigned to a different staff person.

Department Response

Due to the limited number of staff in the Public Guardian office, the Public Guardian has designated that the Health Agency Director, Health Agency Deputy Director, and the Public Guardian Accountant have signatory responsibilities on the Representative Payee program bank

account. Having the Accountant as a third signatory is important in that the Director and Deputy Director are not always both available to sign checks, in which the Accountant would provide a second signature on checks. In order to comply with the Auditor Controller's cash handling policy that states that no single individual control more than one key aspect of a cash transaction, the Department has removed the authority of the Accountant to add new vendors in the Representative Payee financial system. That duty will now be the responsibility of the Sr. Account Clerk in the Public Guardian office. Removing the Accountant from adding new vendors will ensure that cash duties are segregated and control of key cash responsibilities are shared within the Public Guardian office.

We appreciate the courteous attitude of your staff and the cooperation we received during the course of our review.